

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Cale Turner, Owsley County Judge/Executive

Members of the Owsley County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountant, presents the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Morgan-Franklin, LLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Owsley County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT**

**June 30, 2005**

Morgan-Franklin, LLC has completed the audit of the Owsley County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities and each major fund.

#### **Financial Condition:**

The fiscal court had net assets of \$1,789,710 as of June 30, 2005. The fiscal court had unrestricted net assets of \$238,006 in its governmental activities as of June 30, 2005. The fiscal court had total debt principal as of June 30, 2005 of \$169,927 with \$86,954 due within the next year.

Three Forks Regional Jail is a joint venture of the fiscal court. It has been disclosed in a separate audit report there is a substantial doubt of the jail's ability to continue as a going concern. The fiscal court has included this concern in the notes to the financial statements.

#### **Report Comment:**

- The County Judge/Executive Appears To Have Been Underpaid

#### **Deposits:**

The fiscal court had a collateral agreement with their financial institution for the fiscal year ended June 30, 2005, however, deposits were under collateralized by \$262,939 in September 2004.



<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITORS' REPORT.....	1
OWSLEY COUNTY OFFICIALS.....	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES .....	39
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	43
SCHEDULE OF COMMENTS AND RECOMENDATIONS .....	47
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	51
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	





**Morgan-Franklin, LLC**  
**Certified Public Accountants**

P.O. Box 428  
513 Main Street  
West Liberty, KY 41472

Brenda K. Morgan  
Jody B. Franklin

Phone: (606) 743-1884  
Fax: (606) 743-1895  
[www.morganfranklin.com](http://www.morganfranklin.com)

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Owsley County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Owsley County, Kentucky, as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 24, 2006 on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Judge/Executive Appears To Have Been Underpaid

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
May 24, 2006

OWSLEY COUNTY OFFICIALS

For The Year Ended June 30, 2005

**Fiscal Court Members:**

Cale Turner	County Judge/Executive
Jesse Bishop Jr.	Magistrate
Bill Hall	Magistrate
Mike Harris	Magistrate

**Other Elected Officials:**

Henley McIntosh	County Attorney
Hubert Shouse	Jailer
Sid Gabbard	County Clerk
Mike Mays	Circuit Court Clerk
Kelly Shouse	Sheriff
Monica Barrett	Property Valuation Administrator
Eddie Isaacs	Coroner

**Appointed Personnel:**

Christine Moore	County Treasurer
Barbara Whittaker	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**OWSLEY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u><b>Primary Government Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 238,006
Total Current Assets	<u>238,006</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	83,802
Buildings	656,363
Vehicles and Equipment	532,198
Infrastructure Assets - Net of Depreciation	<u>449,268</u>
Total Noncurrent Assets	<u>1,721,631</u>
Total Assets	<u><u>1,959,637</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	<u>86,954</u>
Total Current Liabilities	<u>86,954</u>
Noncurrent Liabilities:	
Financing Obligations	<u>82,973</u>
Total Noncurrent Liabilities	<u>82,973</u>
Total Liabilities	<u><u>169,927</u></u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,551,704
Unrestricted	<u>238,006</u>
Total Net Assets	<u><u>\$ 1,789,710</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY



**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

<b>Functions/Programs Reporting Entity</b>	<b>Expenses</b>	<b>Program Revenues Received</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 552,481	\$ 1,717	\$ 53,444	\$ 128,151
Protection to Persons and Property	285,033	4,534	32,274	100,000
General Health and Sanitation	30,664	19,499		
Social Services	3,000			
Recreation and Culture	5,090			
Roads	615,433	13,300	716,029	193,517
Debt Service	100,936			
Administration	302,802			
Total Governmental Activities	<u>\$ 1,895,439</u>	<u>\$ 39,050</u>	<u>\$ 801,747</u>	<u>\$ 421,668</u>

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Insurance License Tax

Other Taxes

Excess Fees

Interest Received

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets Primary Government</b>	
<b>Governmental Activities</b>	
\$	(369,169)
	(148,225)
	(11,165)
	(3,000)
	(5,090)
	307,413
	(100,936)
	(302,802)
\$	(632,974)
	114,797
	1,469
	18,601
	200,726
	47,644
	11,732
	3,365
	257,700
	656,034
	23,060
	1,766,650
\$	1,789,710

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Local Government Economic Assistance Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 169,497	\$ 41,910	\$ 669	\$ 25,930
Total Assets	<u>\$ 169,497</u>	<u>\$ 41,910</u>	<u>\$ 669</u>	<u>\$ 25,930</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$ 1,470	\$ 9,175	\$ 260	\$ 218
Unreserved:				
General Fund	168,027			
Special Revenue Funds		32,735	409	25,712
Total Fund Balances	<u>\$ 169,497</u>	<u>\$ 41,910</u>	<u>\$ 669</u>	<u>\$ 25,930</u>

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2005**  
**(Continued)**

<b>Total Governmental Funds</b>	
<hr/>	
\$	238,006
\$	238,006
<hr/>	

\$ 11,123

168,027

58,856

---

\$ 238,006

---

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 238,006
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities of \$2,575,759, net of accumulated depreciation of \$854,128, are not financial resources and, therefore, are not reported in the funds.	1,721,631
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(169,927)
Net Assets Of Governmental Activities	<hr/> \$ 1,789,710 <hr/>

THIS PAGE LEFT BLANK INTENTIONALLY



**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
<b>REVENUES</b>			
Taxes	\$ 346,839	\$	\$
In Lieu Tax Payments	17,882	18,517	
Excess Fees	11,732		
Intergovernmental	181,595	828,013	133,161
Charges for Services	19,499		3,647
Miscellaneous	233,729	38,372	958
Interest	1,312	1,906	54
Total Revenues	<u>812,588</u>	<u>886,808</u>	<u>137,820</u>
<b>EXPENDITURES</b>			
General Government	522,324	10,800	
Protection to Persons and Property	143,404		186,655
General Health and Sanitation	26,495		
Social Services			
Recreation and Culture	3,500		
Roads		789,955	
Debt Service	12,276		100,000
Administration	175,518	120,015	3,437
Total Expenditures	<u>883,517</u>	<u>920,770</u>	<u>290,092</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(70,929)</u>	<u>(33,962)</u>	<u>(152,272)</u>
<b>Other Financing Sources (Uses)</b>			
Financing Obligation Proceeds	25,000	169,193	
Transfers From Other Funds	277,733	100,473	138,250
Transfers To Other Funds	(213,250)	(277,733)	
Total Other Financing Sources (Uses)	<u>89,483</u>	<u>(8,067)</u>	<u>138,250</u>
Net Change in Fund Balances	18,554	(42,029)	(14,022)
Fund Balances - Beginning	150,943	83,939	14,691
Fund Balances - Ending	<u>\$ 169,497</u>	<u>\$ 41,910</u>	<u>\$ 669</u>

The accompanying notes are an integral part of the financial statements.

**OWSLEY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Local Government Economic Assistance Fund</b>	<b>Total Governmental Funds</b>
\$	\$ 346,839
	36,399
	11,732
83,250	1,226,019
	23,146
6,600	279,659
93	3,365
<u>89,943</u>	<u>1,927,159</u>
7,200	540,324
23,236	353,295
3,602	30,097
3,000	3,000
	3,500
6,115	796,070
	112,276
3,832	302,802
<u>46,985</u>	<u>2,141,364</u>
<u>42,958</u>	<u>(214,205)</u>
	194,193
	516,456
<u>(25,473)</u>	<u>(516,456)</u>
<u>(25,473)</u>	<u>194,193</u>
17,485	(20,012)
8,445	258,018
<u>\$ 25,930</u>	<u>\$ 238,006</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**OWSLEY COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**OWSLEY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

Net Change in Fund Balances - Total Governmental Funds	\$	(20,012)
--	----	----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		281,468
Depreciation Expense		(102,177)
Basis of Assets Disposed		(11,532)

Loan receivable used to offset long-term debt		(8,660)
---	--	---------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(194,193)
-------------------------------	--	-----------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Financing Obligations		78,166
-----------------------	--	--------

Change in Net Assets of Governmental Activities	\$	23,060
---	----	--------

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS .....	30
NOTE 3.	CAPITAL ASSETS.....	31
NOTE 4.	SHORT-TERM DEBT .....	32
NOTE 5.	LONG-TERM DEBT .....	32
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	34
NOTE 7.	EMPLOYEE RETIREMENT SYSTEM .....	34
NOTE 8.	INSURANCE .....	34
NOTE 9.	PRIOR PERIOD ADJUSTMENTS.....	35
NOTE 10.	ESTIMATED INFRASTRUCTURE HISTORICAL COST .....	35



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Loans receivable are recognized on the Statement of Net Assets, but loans receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, as amended by GASB 39, there are no component units which merit consideration as part of the reporting entity.

**C. Owsley County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Owsley County, major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD required the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, due with 2% discount if paid by November 1, due at face value if paid by December 31, delinquent on and after January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Joint Venture**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, Three Forks Regional Jail is considered a joint venture of the Owsley County fiscal Court.

On October 6, 2000, the Counties of Lee, Owsley, and Wolfe (the participating counties) entered into an Interlocal Cooperation Agreement in order to provide for joint and cooperative action in the acquisition, construction, installation, maintenance and financing of the Three Forks Regional Jail. Pursuant to this interlocal agreement, Lee County (the lead county) established the Three Forks Public Properties Corporation, a legally separate organization, to act as an agency and instrumentality of the participating counties in financing the acquisition and construction of the Three Forks Regional Jail. On December 1, 2000, the corporation issued \$6,295,000 of first mortgage revenue bonds.

The only source of funds expected by the Three Forks Public Properties Corporation to meet the debt service requirements of the bonds are the rental payments from the participation counties, as stipulated in the lease and sublease agreements dated October 1, 2000. Pursuant to the lease and sublease, each participating county covenants to meet its proportionate share of the debt service requirements of the bonds as follows (the "proportionate share" or "use allowance"): 40% for Lee County, 22% for Owsley County and 38% for Wolfe County.

By execution of the lease and subleases, each county is obligated for the amount of its proportionate share, plus any operating cost allowance required under the lease and subleases.

Each county is liable solely for its own proportionate share of total annual debt service for the bonds and no one county is liable for another county's debt. Payment of the annual debt service for the bonds is dependent upon each participation county paying its respective amount of its use allowance as rent under the lease or sublease, as the case may be, in full.

Each county has agreed in its lease and sublease agreements that in the event a county can not pay its indebtedness, an Ad Valorem Tax will be levied in that county for an amount sufficient to provide full payment of the county's rentals due for that year.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Joint Venture (Continued)**

On December 1, 2000, the three participating counties established the Three Forks Regional Jail Authority pursuant to the provisions of KRS 441.800 and KRS 441.810 to act as the constituted authority of the participating counties in the acquisition, construction, equipping and operation of the Three Forks Regional Jail.

It is anticipated under the management agreement that the three participating counties will share equally in the operating costs of the facility based on a daily bed allocation of 15 beds at \$25 per day on a take-or-pay basis. It is anticipated under the management agreement that the counties will not be required to make additional payments for the operation of the facility; however, should there be a shortfall in operating revenue, the counties will pay equally to the authority, those moneys required to meet the debt service and operating costs.

The Three Forks Regional Jail Authority and the Three Fork's Public Properties Corporation are comprised of an eight (8)-member board of directors. Lee County appoints three of the eight members. Wolfe and Owsley counties appoint two members each. In addition, the Lee County jailer is a required member of the board.

In Fiscal Year ending June 30, 2005, Owsley County Fiscal Court received a \$100,000 LGED Grant that was given to Three Forks Regional Jail to be deposited into their debt service reserve account in order to meet debt covenants. In addition, \$144,177 was paid to Three Forks Regional Jail for housing inmates.

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institutions failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of September 2, 2004, \$262,939 of the County's bank balance of \$1,022,063 was exposed to custodial credit risk at Farmer's State Bank as follows:

- Uninsured and unsecured \$262,939

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 83,802	\$	\$	\$ 83,802
Total Capital Assets Not Being Depreciated	83,802			83,802
Capital Assets, Being Depreciated:				
Buildings	1,012,303			1,012,303
Vehicles and Equipment	751,091	254,496	(47,000)	958,587
Infrastructure	494,094	26,972		521,066
Total Capital Assets Being Depreciated	2,257,488	281,468	(47,000)	2,491,956
Less Accumulated Depreciation For:				
Buildings	(339,894)	(16,046)		(355,940)
Vehicles and Equipment	(411,840)	(50,016)	35,467	(426,389)
Infrastructure	(35,683)	(36,115)		(71,798)
Total Accumulated Depreciation	(787,417)	(102,177)	35,467	(854,127)
Total Capital Assets, Being Depreciated, Net	1,470,071	179,291	(11,533)	1,637,829
Governmental Activities Capital Assets, Net	<u>\$ 1,553,873</u>	<u>\$ 179,291</u>	<u>\$ (11,533)</u>	<u>\$ 1,721,631</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 12,157
Protection to Persons and Property	29,912
General Health and Sanitation	568
Recreation and Culture	1,590
Roads, Including Depreciation of General Infrastructure Assets	<u>57,950</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 102,177</u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Short-Term Debt**

On July 1, 2004, Owsley County participated in the Kentucky Association of counties Kentucky Advance Revenue Program by issuing notes in the amount of \$611,100 with principal being due in January 2005. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$1,877.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advance Revenue Program	\$	\$ 611,100	\$ 611,100	\$
Governmental Activities Short-term Liabilities	\$ 0	\$ 611,100	\$ 611,100	\$ 0

**Note 5. Long-term Debt**

**A. Voting Machines**

On March 2, 2000, Owsley County entered into a lease agreement with Kentucky Area Development Districts Financing Trust for voting machines. The principal amount of the lease was \$48,195. The agreement required semi-annual interest payments in May and November and annual principal payments in May to be paid in full May 20, 2005. The principal balance of the agreement was paid in full as of June 30, 2005.

**B. Ambulance - 2000**

On March 2, 2000, the Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would finance the purchase on behalf of Allen's Ambulance Service. The County was responsible for making the required monthly payments. Allen's Ambulance Service was required to reimburse the County for the monthly payments. As of June 30, 2005, this lease was paid in full by the County and reimbursement had been made by Allen's Ambulance.

**C. John Deere Backhoe**

On June 24, 2003, the Fiscal Court entered into a lease agreement with Kentucky Associations of Counties Leasing Trust for the purchase of a John Deere backhoe. The principal amount of the lease was \$50,400. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2006. The principal amount of \$17,100 was outstanding as of June 30, 2005. Lease payments for the remaining years are:

	<u>Governmental Activities</u>	
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest &amp; Fees</u>
2006	\$ 17,100	\$ 247
Totals	\$ 17,100	\$ 247



**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Road Equipment**

On June 25, 2004, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of road equipment. The principal amount of the lease was \$169,193. The agreement requires monthly interest payments and annual principal payments in January to be paid in full January 20, 2009. The principal amount of \$137,288 was outstanding as of June 30, 2005. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 65,000	\$ 3,683
2007	23,400	2,707
2008	24,089	1,700
2009	24,799	648
Totals	<u>\$ 137,288</u>	<u>\$ 8,738</u>

**E. Ambulance - 2004**

On September 10, 2004, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of an ambulance. The principal amount of the lease was \$25,000. The agreement requires monthly principal and interest payments to be paid in full September 20, 2007. The principal amount of \$15,539 was outstanding as of June 30, 2005. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 4,854	\$ 397
2007	8,516	349
2008	2,169	20
Totals	<u>\$ 15,539</u>	<u>\$ 766</u>

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 53,900	\$ 194,193	\$ 78,166	\$ 169,927	\$ 86,954
Governmental Activities Long-term Liabilities	\$ 53,900	\$ 194,193	\$ 78,166	\$ 169,927	\$ 86,954

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$7,824 in interest on financing obligations.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 8. Insurance**

For the fiscal year ended June 30, 2005, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**OWSLEY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 9. Prior Period Adjustments**

On June 25, 2004, the Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust for the purchase of road equipment. The county did not receive the funds for the lease until after the end of the 2004 fiscal year. The beginning net asset balance has been restated to show an increase of \$169,193.

**Note 10. Estimated Infrastructure Historical Cost**

Several historical cost figures related to building, vehicles and equipment, and infrastructure are estimated. The primary government estimated the year some buildings were built or acquired. This estimate was used to calculate the building's historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. The primary government also estimated historical cost figures related to vehicles and equipment. Infrastructure historical costs were estimated by allocating total road and bridge expenditures to individual road and bridge projects completed during the year.

**Note 11. Joint Venture Going Concern**

On May 27, 2005, the Auditor of Public Accounts issued an Independent Auditor's Report on the June 30, 2004, financial statements of the Three Forks Regional Jail Authority. This report outlines that the Three Forks Regional Jail (a joint venture of the Owsley County Fiscal Court) has suffered recurring losses from operations and has a net asset deficiency that raises substantial doubt about its ability to continue as a going concern. The financial situation of the Three Forks Regional Jail has a severe and direct impact on the Owsley County Fiscal Court's current and future budgets. Owsley County's commitment to the Three Forks Regional Jail is outlined in Note 1. A copy of the Three Forks Regional Jail Authority's audit report for the fiscal year ended June 30, 2004 may be obtained at [www.auditor.ky.gov](http://www.auditor.ky.gov), or in writing at the Auditor of Public Accounts, 105 Sea Hero Road, Suite 2, Frankfort, Kentucky 40601, or by telephone at (505) 573-0050.

As of the date of this audit report, the audit report for the Three Forks Regional Jail Authority for the fiscal year ended June 30, 2005 has not been released.

THIS PAGE LEFT BLANK INTENTIONALLY

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Taxes	\$ 318,872	\$ 318,872	\$ 346,839	\$ 27,967
In Lieu Tax Payments	21,400	21,400	17,882	(3,518)
Excess Fees			11,732	11,732
Intergovernmental Revenue	129,310	163,233	181,595	18,362
Charges for Services	13,000	13,000	19,499	6,499
Miscellaneous	59,270	180,243	233,729	53,486
Interest	900	900	1,312	412
Total Revenues	\$ 542,752	\$ 697,648	\$ 812,588	\$ 114,940
<b>EXPENDITURES</b>				
General Government	\$ 403,575	\$ 561,730	\$ 522,324	\$ 39,406
Protection to Persons and Property	93,000	146,300	143,404	2,896
General Health and Sanitation	9,956	26,556	26,495	61
Recreation and Culture	75,000	3,598	3,500	98
Debt Service	7,836	12,286	12,276	10
Administration	133,953	178,179	175,518	2,661
Total Expenditures	\$ 723,320	\$ 928,649	\$ 883,517	\$ 45,132
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (180,568)	\$ (231,001)	\$ (70,929)	\$ 160,072
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		25,000	25,000	
Transfers From Other Funds	189,783	189,783	277,733	87,950
Transfers To Other Funds	(137,215)	(137,215)	(213,250)	(76,035)
Total Other Financing Sources (Uses)	\$ 52,568	\$ 77,568	\$ 89,483	\$ 11,915
Net Changes in Fund Balance	(128,000)	(153,433)	18,554	171,987
Fund Balance - Beginning	128,000	153,433	150,943	(2,490)
Fund Balance - Ending	\$ 0	\$ 0	\$ 169,497	\$ 169,497

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 16,280	\$ 16,280	\$ 18,517	\$ 2,237
Intergovernmental Revenue	1,333,861	1,495,582	828,013	(667,569)
Miscellaneous	60,000	60,000	38,372	(21,628)
Interest	1,100	1,100	1,906	806
Total Revenues	\$ 1,411,241	\$ 1,572,962	\$ 886,808	\$ (686,154)
<b>EXPENDITURES</b>				
General Government	\$ 10,800	\$ 10,800	\$ 10,800	\$ 0
Roads	961,561	1,332,871	789,955	542,916
Capital Projects	110,000	110,000		110,000
Administration	190,570	150,174	120,015	30,159
Total Expenditures	\$ 1,272,931	\$ 1,603,845	\$ 920,770	\$ 683,075
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ 138,310	\$ (30,883)	\$ (33,962)	\$ (3,079)
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	\$ 0	\$ 169,193	\$ 169,193	\$ 0
Transfers From Other Funds	25,473	25,473	100,473	75,000
Transfers To Other Funds	(189,783)	(189,783)	(277,733)	(87,950)
Total Other Financing Sources (Uses)	\$ (164,310)	\$ 4,883	\$ (8,067)	\$ (12,950)
Net Changes in Fund Balance	(26,000)	(26,000)	(42,029)	(16,029)
Fund Balance - Beginning	25,000	25,000	83,939	58,939
Fund Balance - Ending	\$ (1,000)	\$ (1,000)	\$ 41,910	\$ 42,910



**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 31,311	\$ 131,311	\$ 133,161	\$ 1,850
Charges for Services	5,000	5,000	3,647	(1,353)
Miscellaneous	650	650	958	308
Interest	70	70	54	(16)
Total Revenues	\$ 37,031	\$ 137,031	\$ 137,820	\$ 789
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ 192,020	\$ 194,920	\$ 186,655	\$ 8,265
Debt Service		100,000	100,000	
Administration	8,480	5,580	3,437	2,143
Total Expenditures	\$ 200,500	\$ 300,500	\$ 290,092	\$ 10,408
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ (163,469)	\$ (163,469)	\$ (152,272)	\$ 11,197
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	159,969	159,969	138,250	\$ (21,719)
Total Other Financing Sources (Uses)	\$ 159,969	\$ 159,969	\$ 138,250	\$ (21,719)
Net Changes in Fund Balance	(3,500)	(3,500)	(14,022)	(10,522)
Fund Balance - Beginning	4,000	4,000	14,691	10,691
Fund Balance - Ending	\$ 500	\$ 500	\$ 669	\$ 169

**OWSLEY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 84,600	\$ 90,600	\$ 83,250	\$ (7,350)
Miscellaneous	200	200	6,600	6,400
Interest	110	110	93	(17)
Total Revenues	\$ 84,910	\$ 90,910	\$ 89,943	\$ (967)
<b>EXPENDITURES</b>				
General Government	\$ 7,200	\$ 7,200	\$ 7,200	\$ 0
Protection to Persons and Property	23,384	23,384	23,236	148
General Health and Sanitation	3,000	3,000	3,602	(602)
Social Services	3,000	3,000	3,000	
Roads		6,000	6,115	(115)
Administration	5,099	5,099	3,832	1,267
Total Expenditures	\$ 41,683	\$ 47,683	\$ 46,985	\$ 698
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	\$ 43,227	\$ 43,227	\$ 42,958	\$ (269)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(48,227)	(48,227)	(25,473)	22,754
Total Other Financing Sources (Uses)	\$ (48,227)	\$ (48,227)	\$ (25,473)	\$ 22,754
Net Changes in Fund Balances	(5,000)	(5,000)	17,485	22,485
Fund Balances - Beginning	5,000	5,000	8,445	3,445
Fund Balances - Ending	\$ 0	\$ 0	\$ 25,930	\$ 25,930

**OWSLEY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

**OWSLEY COUNTY  
COMMENT AND RECOMENDATION**

**For The Year Ended June 30, 2005**



**OWSLEY COUNTY  
COMMENT AND RECOMENDATION**

For The Year Ended June 30, 2005

***Non-Compliance***

The County Judge/Executive Appears To Have Been Underpaid

During our test of payroll, we discovered Judge/Executive Cale Turner was underpaid \$1,245 for 2004.

We recommend that the Owsley County Fiscal Court pay the Judge/Executive \$1,245 for the net underpayment of his statutory maximum salary for 2004.

*County Judge/Executive Cale Turner's Response: We budget what GOLD advises.*

THIS PAGE LEFT BLANK INTENTIONALLY



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**Morgan-Franklin, LLC**  
**Certified Public Accountants**

P.O. Box 428  
513 Main Street  
West Liberty, KY 41472

Brenda K. Morgan  
Jody B. Franklin

Phone: (606) 743-1884  
Fax: (606) 743-1895  
[www.morganfranklin.com](http://www.morganfranklin.com)

The Honorable Cale Turner, Owsley County Judge/Executive  
Members of the Owsley County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Owsley County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 24, 2006. Owsley County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of material noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Judge/Executive Appears To Have Been Underpaid

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

Audit fieldwork completed -  
May 24, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**OWSLEY COUNTY FISCAL COURT**

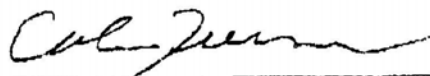
**For The Fiscal Year Ended  
June 30, 2005**



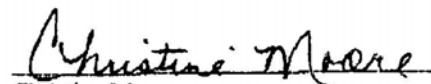
**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE**  
**OWSLEY COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2005

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Cale Turner  
County Judge Executive



Christine Moore  
County Treasurer